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ANNUAL REPORT

NATIONAL TEA CO.

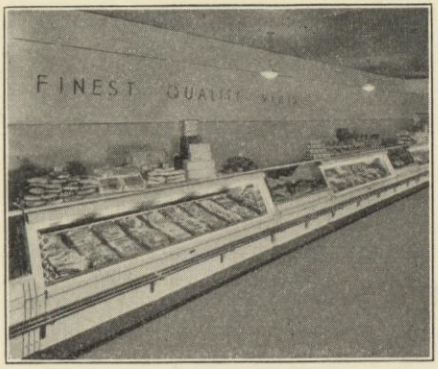
Money-Saving Food Distribution
EST. 1899
NATIONAL TEA CO.
Food Stores

FOR THE YEAR ENDING DECEMBER 31, 1935

MRB
CORP. FILE

Various Types of our new Meat Market Installations

Practical and Attractive



National's regular standard type of meat department.

One of National's new modern super markets featuring high quality meats and also economy section featuring popularly priced meat.

Another of National's super type markets featuring only high quality meats.

Junior type markets showing entire installation of "one man" accommodation meat market.

Our latest improved Store Front

1000 Crosby Street, Chicago.
February 18, 1936.

To the Stockholders of the
National Tea Co.

The annual report of your Company for the year ending December 31, 1935, as certified to by Messrs. Arthur Young & Co., is presented herewith for your consideration.

The result of operation for the year, after making provision for federal taxes, is a profit of $319,260.03, equivalent after preferred dividends to $0.37⅘ per share on 628,250 shares of outstanding common stock. This result compares with a profit of $462,752.17 for the year 1934, equivalent after preferred dividends to $0.60½ per share on 630,000 shares of outstanding common as of that date.

The sales for the year (including sales made direct from the warehouse on contract) amounted to $63,063,461.68 as compared with sales for 1934 of $62,789,250.22, or an increase of .44%. At December 31, 1935, the Company had in operation 1,224 stores of which 467 were combination grocery and meat markets, as compared with 1,245 stores at the end of 1934, of which 450 were combination grocery and meat markets.

During the year the Company purchased $550,000.00 of its outstanding Three-Year 5% Sinking Fund Notes, of which $350,000.00 were turned in to the Trustee for cancellation under the Sinking Fund Provision, and $200,000.00 are held in the Treasury. Options outstanding with purchasers of these Notes to acquire 5,500 shares of Treasury Common Stock of the Company were also cancelled as a result of the above purchase.

MAR 6 1936 A3

After a careful survey, the Directors authorized writing down the cost value of certain of the Company's warehouse and store properties by an amount of $1,500,000.00 in order to bring the book values of these properties more in line with present operating needs. The Directors also approved a change in the accounting policy of the Company, as a result of which unamortized improvements made to leaseholds, in the amount of $553,913.70 were charged off to Surplus and the policy instituted of charging all future improvements off against current income at the time made.

Your Company has filed moderate claims for refund of Processing Taxes paid as a result of the United States Supreme Court decisions holding these laws invalid, and anticipates at least partial collection of these claims. No adjustments have been made in the accounts submitted herewith in respect of any of these possible refunds.

I am pleased to report that your management's efforts to reorganize and strengthen the Company's personnel, particularly the supervisory staff, during the past year at this time clearly indicates beneficial effects to be expected therefrom. Your Company is thereby placed in a better position than ever to cope with existing conditions.

Respectfully submitted,

Geo. Rasmussen,
President.

CONSOLIDATED

DECEMBE

ASSETS

CURRENT ASSETS:		
Cash on Hand and in Banks		$ 1,715,634.84
Marketable Securities, at Cost (Market Value $46,637.25)		46,862.25
Notes Receivable (less Reserve for Doubtful Notes)		11,162.39
Accounts Receivable—		
Trade	$ 217,973.83	
Due from Relief Agencies (of which in excess of 60% has been received in 1936)	525,331.64	
Other	64,737.63	
	$ 808,043.10	
Less: Reserve for Bad Debts	40,072.68	
		767,970.42
Inventories of Merchandise and Supplies on hand and in transit, certified as to quantities and condition by officials of the Company and valued at cost or market, whichever is lower		6,079,164.57
Total Current Assets		$ 8,620,794.47
EMPLOYES' STOCK SUBSCRIPTION CONTRACTS:		
Investment in contracts secured by 8,800 shares Preferred Stock National Tea Co. and guaranteed		85,060.84
CASH IN CLOSED BANKS, LESS RESERVE		27,964.22
MORTGAGES AND NOTES RECEIVABLE		25,908.22
INVESTMENTS:		
Nateco Realty Trust (represented by 500 Certificates of Beneficial Interest, being 50% Ownership at Cost, which is less than book value)	$ 668,870.51	
Sundry Stocks	3,532.88	
		672,403.39
PROPERTIES—AT COST UNLESS OTHERWISE STATED:		
Land	$3,176,013.49	
Buildings (at cost less reduction in valuation as of June 17, 1935 as determined by Board of Directors)	$ 4,821,598.23	
Machinery, Fixtures and Equipment	8,015,591.16	
Delivery Equipment	939,424.59	
	$13,776,613.98	
Less: Reserve for Depreciation	6,729,636.47	
	7,046,977.51	
		10,222,991.00
GOODWILL		1.00
DEFERRED CHARGES:		
Prepaid Rents, Taxes, Insurance, etc.	$ 194,899.37	
Unamortized Discount and Expense on 5% Sinking Fund Notes	45,092.00	
		239,991.37
		$19,895,114.51

The President and Board of Directors,
National Tea Co., Chicago

We have made an examination of the consolidated balance statement of consolidated income and surplus for the year 19 and other corporate records of the company and its wholly ow tions from officers and employes of the companies; we also mad and income accounts for the year, but we did not make a deta

Revision of depreciation rates on certain fixed assets foll resulted in a comparative increase in depreciation charged for buildings of $1,500,000, on resolution of the Board of Directo $21,000. A change in accounting policy on June 17, 1935 cha to expense when incurred, instead of the prior policy of charg balance of expense at June 17, 1935 has been charged again

The requirements of the sinking fund under the issue of t year 1935.

In our opinion, based upon such examination and subject related statement of income and surplus fairly present, in acc lowed by the companies, the financial position at December 3

Chicago, Illinois—February 12, 1936.

BALANCE SHEET

R 31, 1935

LIABILITIES AND CAPITAL

CURRENT LIABILITIES:		
Accounts Payable—		
Trade, etc.	$1,527,226.36	
Payroll and Commissions	63,998.13	
Interest and Taxes	464,442.42	
Employes' Deposits	11,301.56	
Dividends Payable	107,873.27	
Provision for Federal Income Tax and Capital Stock Tax (Estimated)	120,000.00	
		$ 2,294,841.74
Purchase money obligations due in 1936		94,000.00
Commercial Letters of Credit (Merchandise Received or in Transit)		190,059.05
Total Current Liabilities		$ 2,578,900.79
PURCHASE MONEY OBLIGATIONS—DUE SUBSEQUENT TO 1936		427,750.00
THREE-YEAR 5% SINKING FUND NOTES DUE DECEMBER 15, 1937 (An option agreement gives holders of notes a right to purchase from the National Tea Co., subject to certain conditions, ten shares of National Tea Co. common stock for each $1,000 par value of notes held):		
Authorized	$ 3,000,000.00	
Issued and Outstanding	$2,650,000.00	
Less: Held in Treasury	200,000.00	
		2,450,000.00
CONTINGENT RESERVE		56,144.85
PREFERRED STOCK, 5½% CUMULATIVE:		
Authorized and Issued...200,000 Shares of $10 each..		2,000,000.00
Less: Held in Treasury 52,100 Shares		
Outstanding.....147,900 Shares		
COMMON STOCK:		
Authorized.....800,000 Shares of No Par Val.		
Issued.....660,000 Shares.....		8,250,000.00
Less: Held in Treasury (24,500 sharesunder Option Agreement) 31,750 Shares		
628,250 Shares		
EARNED SURPLUS:		
As per Statement attached	$4,990,834.17	
Less:		
Capital Stock held in Treasury—		
Preferred—52,100 Shares.....$517,849.25		
Common—31,750 Shares..... 340,666.05		
	858,515.30	
		4,132,318.87
		$19,895,114.51

sheet of National Tea Co. as at December 31, 1935 and of the
35. In connection therewith we examined or tested accounting
ied subsidiary companies and obtained information and explana-
a general review of the accounting methods and of the operating
led audit of the transactions.
owing final conferences with the Internal Revenue Department
the year of approximately $80,000 while a reduction in value of
rs, resulted in a decreased depreciation charge of approximately
ges extraordinary improvements of owned and leased properties
ing such improvements over definite periods and the unexpired
st surplus.
ie Three Year 5% Notes have been fully complied with for the

to the above, the accompanying consolidated balance sheet and
ordance with accepted principles of accounting consistently fol-
1, 1935 and the results of the operations for the year.

ARTHUR YOUNG & CO.
Certified Public Accountants.

INCOME AND SURPLUS ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 1935

SALES:			
Stores		$61,609,667.73	
Direct Warehouse Sales		1,453,793.95	
			$63,063,461.68
Deduct:			
Cost of Sales and Expenses, including Sales and Occupational Taxes		$61,737,027.95	
Depreciation		972,588.58	
			62,709,616.53
NET OPERATING PROFIT			$ 353,845.15
Add:			
Dividends received from investments during 1935—			
Nateco Realty Trust		$ 28,975.00	
Sundry Stocks		151.00	
			29,126.00
Provision for Wisconsin Chain Store Occupational Tax, prior year, cancelled because unconstitutional			16,288.88
Net Profit before deducting Provision for Federal Income Tax			$ 399,260.03
Provision for Federal Income Tax (estimated)			80,000.00
Net Profit transferred to Surplus			$ 319,260.03
Earned Surplus, January 1, 1935		$ 6,892,760.61	
Deduct:			
Additional depreciation for 1934 to conform with rates allowed by Internal Revenue Department	$ 80,562.59		
Reduction in cost value of buildings June 17, 1935 as determined by Board of Directors	$1,500,000.00		
Less:			
Depreciation reserve applicable thereto	372,334.82		
	1,127,665.18		
Extraordinary Expenditures on improvements to properties owned and leased charged off following change in accounting policy, June 17, 1935	553,913.70		
Dividends—			
Preferred	$ 81,345.00		
Common	377,700.00		
	459,045.00		
		2,221,186.47	
			4,671,574.14
Earned Surplus, as per Balance Sheet			$ 4,990,834.17

National Tea Co.

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Directors

George Rasmussen

Frederick H. Massmann

Th. Rasmussen

Burt J. Dickens

Robert V. Rasmussen

Joseph L. Merrill

Officers

George Rasmussen
President

Frederick H. Massmann
Vice-President

Th. Rasmussen
Secretary & Treasurer

Burt J. Dickens
Assistant Secretary

W. E. Russell
Comptroller

○